

CITY OF FROSTBURG, MARYLAND
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015

CITY OF FROSTBURG, MARYLAND

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INDEPENDENT AUDITORS' REPORT

Mayor and City Council
City of Frostburg, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of City of Frostburg, Maryland, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Frostburg, Maryland, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 15 to the financial statements, during the year ended June 30, 2015, the City adopted new accounting guidance from Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result of the implementation of these standards, the City reported a restatement for change in accounting principle. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 16, the budgetary comparison information on pages 50 – 51, the "Schedule of Funding Progress – Other Post-Employment Benefit Plan Contribution" on page 52, the "Schedule of City of Frostburg, Maryland's Proportionate Share of Net Pension Liability – Maryland State Retirement and Pension System" on page 53, and the "Schedule of City of Frostburg, Maryland's Contributions to Maryland State Retirement and Pension System" on page 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2016, on our consideration of the City of Frostburg, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Frostburg, Maryland's internal control over financial reporting and compliance.

Herber, Michael & Company

Cumberland, Maryland

January 28, 2016

CITY OF FROSTBURG, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2015

**Management Discussion and Analysis
City of Frostburg**

**City of Frostburg
Management's Discussion and Analysis**

The City of Frostburg's discussion and analysis provides an overview of the government's financial activities for the fiscal year ended June 30, 2015. This information is designed to focus on the current year activities, resulting changes, and currently known facts. The discussion and analysis should be read in conjunction with the financial statements which follow this narrative.

Financial Highlights

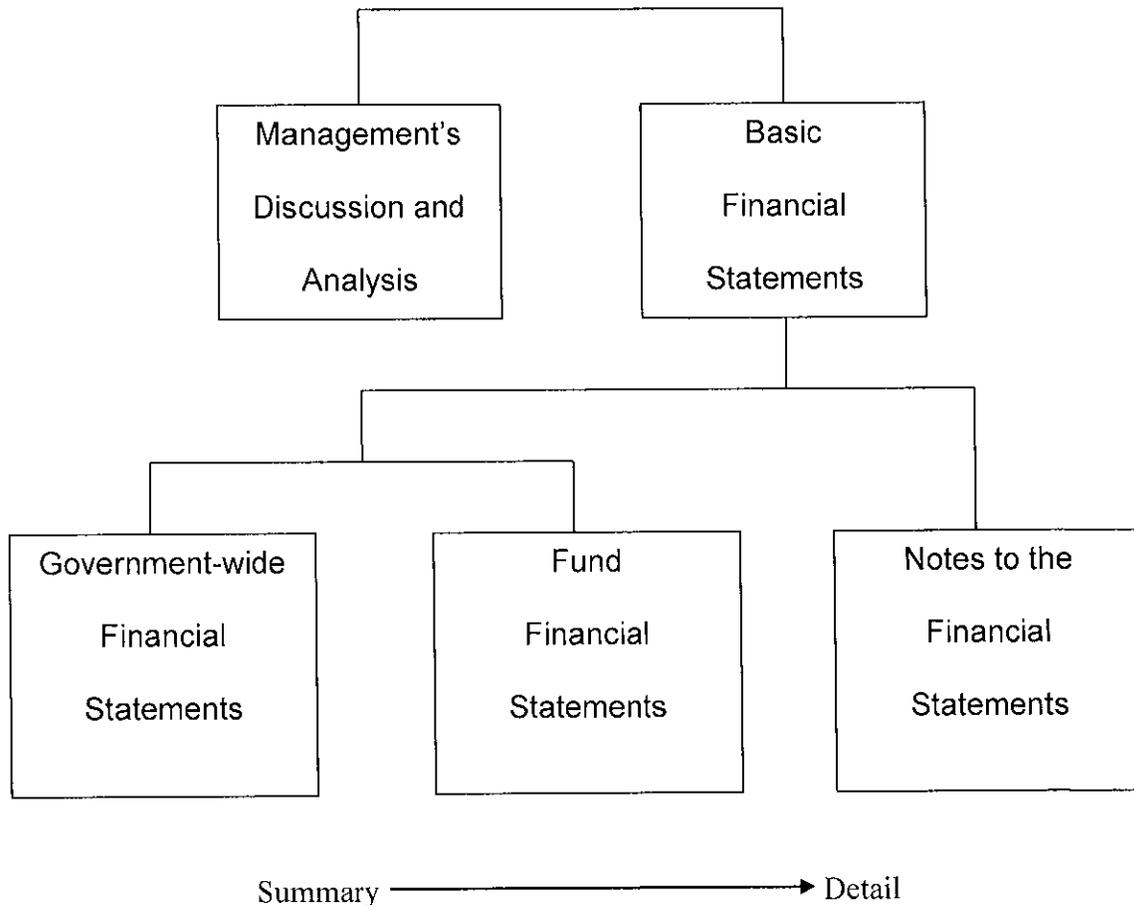
- The assets of the City of Frostburg exceeded its liabilities at the close of the fiscal year by \$32,820,813.
- The government's total net position decreased by \$700,616, primarily due to accrual of the City's portion of the net pension liability for the Maryland State Retirement and Pension System as required by new accounting standards.
- As of the close of the current fiscal year, the City of Frostburg's governmental funds reported combined ending fund balances of \$3,169,715, an increase of \$241,531 in comparison with the prior year. Approximately 91 percent of this total amount, or \$2,875,070, is available for spending at the government's discretion.
- At the end of the current fiscal year, unrestricted fund balance for the General Fund was \$2,210,825, or 51 percent of total general fund expenditures for the fiscal year.
- The City of Frostburg's total debt decreased by \$306,266, or 3 percent during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the City of Frostburg's basic financial statements. The city's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the city through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Frostburg.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (pages 17 & 18) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City of Frostburg financial status.

The **Fund Financial Statements** (pages 19 - 25) focus on the activities of the individual parts of the city government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental fund statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the notes (pages 26 – 49). The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the city's

Management Discussion and Analysis

City of Frostburg

individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the city finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the city financial status as a whole.

The two government-wide statements report the city's net position and how they have changed. Net position is the difference between the city's total assets, deferred outflows of resources, total liabilities, and deferred inflows of resources. Measuring net position is one way to gauge the city's financial condition.

The government-wide statements are divided into two categories: governmental activities and business-type activities. The governmental activities include most of the city's basic services such as public safety, streets, parks and recreation, and general administration. Taxes and state and federal grant funds finance most of these activities. The business-type activities are those services that the city charges customers to provide. These include the water, sewer and refuse services offered by the City of Frostburg.

The government-wide financial statements are on pages 17 and 18 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the city's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Frostburg, like all other governmental entities in Maryland, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the city's budget ordinance. All of the funds of the City of Frostburg can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the city's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the city's programs. The relationship between governmental activities (reported in the Statement of Net position and the Statement of Activities) and

Management Discussion and Analysis

City of Frostburg

governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Frostburg adopts an annual budget for its General Fund, as required by the charter. The budget is a legally adopted document that incorporates input from the citizens of the city, the management of the city, and the decisions of the Mayor & Council about which services to provide and how to pay for them. It also authorizes the city to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the city complied with the budget ordinance and whether or not the city succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Mayor and Council; 2) the final budget as amended by the Mayor and Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – The City of Frostburg has two different kinds of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Frostburg uses enterprise funds to account for its water, water surcharge, sewer and refuse activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Special Revenue Funds are an accounting device used to accumulate and allocate costs internally among the functions of the City of Frostburg. The city uses a special revenue fund to account for its Community Development Block Grant activity. Because this activity benefits predominantly governmental rather than business-type activities, the special revenue fund has been included within the governmental activities in the government-wide financial statements.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 26 - 49 of this report.

Government-Wide Financial Analysis

The government-wide financial statements include the Statement of Net Position. The Statement of Net Position presents information on all of the City of Frostburg's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The difference between the two subtotals are reported as net position. Over time, increases or

Management Discussion and Analysis
City of Frostburg

decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities is also included in the government-wide financial statements. The Statement of Activities focuses on how the government's assets changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The government-wide statements include the Statement of Net Position and the Statement of Activities and can be found on pages 17 - 18 of this report.

The City of Frostburg's Net Position
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 3,610,438	\$ 3,443,100	\$ 2,206,422	\$ 3,204,800	\$ 5,816,860	\$ 6,647,900
Non-current assets	35,785	80,653	-	-	35,785	80,653
Capital assets	10,083,499	10,163,151	28,844,948	28,107,776	38,928,447	38,270,927
Total assets	13,729,722	13,686,904	31,051,370	31,312,576	44,781,092	44,999,480
Deferred outflows of resources	136,808	-	50,949	-	187,757	-
Long-term liabilities	1,362,281	465,354	8,895,413	8,873,033	10,257,694	9,338,387
Other liabilities	325,174	397,221	1,428,939	1,742,443	1,754,113	2,139,664
Total liabilities	1,687,455	862,575	10,324,352	10,615,476	12,011,807	11,478,051
Deferred inflows of resources	99,262	-	36,967	-	136,229	-
Net assets:						
Invested in capital assets, net of related debt	9,996,717	10,045,169	19,780,769	18,768,531	29,777,486	28,813,700
Restricted	310,430	328,076	-	-	310,430	328,076
Unrestricted	1,772,666	2,451,084	960,231	1,928,569	2,732,897	4,379,653
Total net assets	\$ 12,079,813	\$ 12,824,329	\$ 20,741,000	\$ 20,697,100	\$ 32,820,813	\$ 33,521,429

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Frostburg exceeded liabilities and deferred inflows by \$32,820,813 as of June 30, 2015. The majority of the net position is capital assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Frostburg's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Frostburg's net position (1%) represents resources that are subject to external restrictions on how they may be used.

Management Discussion and Analysis
City of Frostburg

The city's total net position increased by \$508,108 after the implementation of GASB Statement 68 and Statement 71 for the fiscal year ended June 30, 2015. Several particular aspects of the City financial operations positively influenced the total governmental net position:

- Increase in property tax revenues.
- The grant and loan funding received for the capital projects.
- A one-time grant from the State Highway Administration for highway projects.

The City of Frostburg's Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 347,969	\$ 356,909	\$ 3,670,255	\$ 3,901,325	\$ 4,018,224	\$ 4,258,234
Operating grants and contributions	770,306	484,602	-	-	770,306	484,602
Capital grants and contributions	8,787	18,399	1,244,808	1,044,222	1,253,595	1,062,621
General revenues:						
Property taxes	2,295,563	2,268,163	-	-	2,295,563	2,268,163
Other taxes	718,384	868,270	-	-	718,384	868,270
Other	216,912	129,870	1,099	340,486	218,011	470,356
Total revenues	4,357,921	4,126,213	4,916,162	5,286,033	9,274,083	9,412,246
Expenses:						
General government	630,149	541,717	-	-	630,149	541,717
Public safety	1,801,385	1,709,115	-	-	1,801,385	1,709,115
Public works	1,192,278	1,055,385	-	-	1,192,278	1,055,385
Recreation and parks	516,674	487,203	-	-	516,674	487,203
Community development	219,521	232,941	-	-	219,521	232,941
Code enforcement	154,565	158,392	-	-	154,565	158,392
Interest on long-term debt	40	59,078	-	-	40	59,078
Water, sewer and garbage	-	-	4,251,363	4,204,772	4,251,363	4,204,772
Total expenses	4,514,612	4,243,831	4,251,363	4,204,772	8,765,975	8,448,603
Change in net position before transfers and donations	(156,691)	(117,618)	664,799	1,081,261	508,108	963,643
Transfers	294,888	234,600	(294,888)	(234,600)	-	-
Change in net position	138,197	116,982	369,911	846,661	508,108	963,643
Net position, July 1, as restated	11,941,616	12,707,347	20,371,089	19,850,439	32,312,705	32,557,786
Net position, June 30	\$ 12,079,813	\$ 12,824,329	\$ 20,741,000	\$ 20,697,100	\$ 32,820,813	\$ 33,521,429

Additionally, the City implemented GASB Statement 68 and Statement 71 during FY 15. This change resulted in a reduction in beginning net position for FY 15 as shown in the following table. Additional information on the implementation of new accounting standards may be found in the Notes to the Financial Statements.

**Management Discussion and Analysis
City of Frostburg**

**Restatement of Beginning Net Position
For the Fiscal Year Ended June 30, 2015**

	Governmental Activities	Business-type Activities
Net Position, June 30, 2014	\$ 12,824,329	\$ 20,697,100
Net Pension Liability	(999,817)	(372,335)
Deferred Outflow of Resources	117,104	46,324
Net Position, as restated	<u>\$ 11,941,616</u>	<u>\$ 20,371,089</u>

Governmental activities: Readers will note the Statement of Activities is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. Expenses are listed in the first column with revenues for that particular program reported to the right. The result is a Net Revenue/(Expense). This format highlights the relative financial burden of each of the functions on the City's taxpayers and it identifies how much each function draws from the general revenues or if it is self-financing through fees and grants.

Governmental activities increased the city's net position by \$138,197. The key elements of this increase are as follows:

- The increase in property tax revenues.
- The increase in capital contributions through donated property.

Business-type activities: Business-type activities increased the City of Frostburg's net position by \$369,911. The key elements of this increase are as follows:

- The grant funding received for the Savage Springs water project.
- The grant funding received for the Phase VIIB-2 CSO project.
- The grant funding received for emergency generators.

Financial Analysis of the City Funds

As noted earlier, the City of Frostburg uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the City of Frostburg's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Frostburg's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

Management Discussion and Analysis City of Frostburg

The general fund is the chief operating fund of the City of Frostburg. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$2,210,825, while total fund balance was \$2,875,070. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures.

At June 30, 2015, the governmental funds of the City of Frostburg reported a combined fund balance of \$3,169,715, an 8 percent increase over last year. Included in this change in fund balance is an increase in fund balance in the General Fund and an increase in fund balance in the Special Revenue Fund.

General Fund Budgetary Highlights: During the fiscal year, the Mayor & City Council publicly amended the budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

The difference between the original and the final amended budget was an increase of \$279,840 and is summarized as follows:

Increase in administration	\$ 34,419
Increase in public safety	11,364
Increase in public works	221,557
Increase in recreation department	12,500
Total change in budget	<u>\$ 279,840</u>

During the year actual revenues exceeded the amended budget by \$244,007. Maryland income taxes were \$110,163 greater than estimated. Highway use tax was \$122,974 lower than expected, however, the City received a one-time grant from the State Highway Administration in the amount of \$151,119 that was included with other grant income. Street department and recreation department expenditures were lower than anticipated by \$59,594 and \$14,824 respectively.

Expenditures were less than the final budgetary estimates by \$33,350 or less than 1% of total expenditures.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water, Water Surcharge, Sewer and Garbage Funds at the end of the fiscal year was \$960,231. Current year operations of the proprietary funds positively affected net position by \$369,911. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Management Discussion and Analysis
City of Frostburg

Capital Asset and Debt Administration

Capital assets: The City of Frostburg’s investment in capital assets for its governmental and business-type activities as of June 30, 2015 totals \$38,928,447 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions and deletions:

- Work in progress on the Phase VIIB-2 CSO Project of \$1,146,101.
- Completion of the Savage Springs I project including \$36,122 of work in progress during the year ended June 30, 2015.
- Work in progress of the Savage Springs II project of \$567,358.
- Completion of the emergency generator project of \$240,196.
- Completion of 2014/15 street paving of \$116,110.

The City of Frostburg’s Capital Assets
Figure 4

	(net of depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land and construction in progress	\$ 2,361,610	\$ 2,307,801	\$ 2,227,072	\$ 1,328,942	\$ 4,588,682	\$ 3,636,743
Buildings and systems	2,845,384	2,962,696	3,308,545	3,577,472	6,153,929	6,540,168
Improvements other than buildings	464,130	517,211	7,574,264	7,911,096	8,038,394	8,428,307
Machinery and equipment	593,874	503,973	494,830	310,072	1,088,704	814,045
Infrastructure	3,818,501	3,871,470	15,240,237	14,980,194	19,058,738	18,851,664
Total	<u>\$ 10,083,499</u>	<u>\$ 10,163,151</u>	<u>\$ 28,844,948</u>	<u>\$ 28,107,776</u>	<u>\$ 38,928,447</u>	<u>\$ 38,270,927</u>

Additional information on the City’s capital assets can be found in note 5 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2015 the City of Frostburg had total bonded debt outstanding of \$9,170,961. Of this, \$106,782 is debt backed by the full faith and credit of the City. The remainder of the City’s debt represents bonds secured solely by specified revenue sources.

**Management Discussion and Analysis
City of Frostburg**

**The City of Frostburg’s Outstanding Debt
General Obligation and Revenue Bonds
Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$ 106,782	\$ 137,982			\$ 106,782	\$ 137,982
Revenue bonds			\$ 9,064,179	\$ 9,339,245	\$ 9,064,179	\$ 9,339,245
Total	\$ 106,782	\$ 137,982	\$ 9,064,179	\$ 9,339,245	\$ 9,170,961	\$ 9,477,227

The City of Frostburg’s total debt decreased by \$306,266 (3.2%) during the past fiscal year. Debt principal payments during the past fiscal year were \$697,095.

Additional information regarding the City of Frostburg’s long-term debt can be found in note 6 beginning on page 36 of this report.

Economic Factors – 2015

Overview

The Frostburg area economy was relatively stable during the 2014/15 Fiscal Year. Again this year, limited economic activity, either positive or negative, occurred. Similar to much of the nation, there were no major increases in employment or the announcements of major projects. At the same time, there were no major layoffs, closings or business failures. The result was stable unemployment, however with ongoing low median family incomes. Impacting the City directly was a modest decrease in real property assessments on existing homes and commercial buildings. No new single family home building permits were issued during the fiscal year, however there were a number of additions and expansions permitted.

Major Employers

The area, including the City of Frostburg, remains dominated by several large employers as well as national economic trends. The larger area employers are described below.

Frostburg State University – Frostburg State University (FSU) remains the number one factor in the Frostburg regional economy. The number of full time jobs, growing enrollment and ongoing capital investments make the University the largest employer in the City. In addition to the University, the affiliated privately owned student rental industry located in the neighborhoods surrounding the campus, provides additional capital

Management Discussion and Analysis

City of Frostburg

investment, employment, and property assessment support to the community. Enrollment continues to grow each year.

During the fiscal year, FSU completed and opened the new Center for Communications and Information Technology (CCIT) building at a cost of over \$70 million. This facility will dramatically advance FSU's ability to attract technology students and faculty. Additional projects are planned for a new Police Department building and a new Allied Health instructional building in the near future.

The University has other important impacts on the community in addition to the University campus. The Allegany Business Center at FSU and the tenants of the facility in that business park that employ hundreds of people. The FSU Cultural Events Series brings regional, national and international performing arts to the campus which attracts thousands of ticket buyers to the community for these performances. In addition, FSU faculty and staff are involved in organizations and special events such as the Frostburg First Main Street Program, the Frostburg Business and Professional Association, and the Frostburg Children's Literature Center.

Customer Service Call Centers – Three private companies make up the customer service call center sector in Frostburg and represent over 1,000 jobs. The sector attracts both full and part time employees to fill general and specialized positions such as in health care. It also requires a number of IT and telecom professionals to manage the technology the companies deploy.

Tourism – The tourism sector in Frostburg is dominated by the Western Maryland Scenic Railroad and the Great Allegheny Passage. The two attractions bring tens of thousands of short term visitors to the City with a growing number of visitors who stay one or more nights or return to the region based upon their initial visit. The Scenic Railroad is seeing a growing number of passengers, now reaching 40,000 per year.

The other significant player in the tourism sector is, again, Frostburg State University. FSU's Cultural Events Series, sports camps and special events such as Homecoming, Family Weekend and Freshman Summer Planning bring thousands to the City. Another element of tourism in Frostburg are special community events. The largest special event each year is the Cruisin' Main Street event featuring antique cars in late August followed shortly by the annual Block Party. In addition, the annual Elks Derby Day, Appalachian Festival, Roots Music Series and Storybook Holiday attract thousands more participants each year. Within this element, the events that are based on music have been growing with the addition of the Tri-State Banjo and Fiddle Championships and the participation of the Dell McCoury organization in that event.

Other Sectors – There are several other economic sectors that collectively have a major impact on Frostburg.

During the Fiscal Year, the Energy Sector began to decline. Coal is declining in the Frostburg area, as it is in all of Appalachia. One wind mill project was completed, but

Management Discussion and Analysis

City of Frostburg

others appear to be stagnant. Drilling for natural gas in the Marcellus Shale has yet to occur in Maryland. The construction sector remains a source of good jobs with firms like Braddock Construction, Lashley Construction, Bill Miller Equipment and Ruby Contracting and Industrial Supply. Public education, specifically K– 12 is a large employer in the City with jobs at Mountin Ridge High School, Frost Elementary, Beall Elementary and the Alternative School in Eckhart.

Finally, there are other significant employers in the region that employ Frostburg residents. They include CSX Transportation, Luke Paper Mill, ATK Tactical Systems, Western Maryland Health System-Hospital, Federal Bureau of Prisons, two Maryland Correction facilities, and Allegany College of Maryland. Employment among these larger regional employers has been stable or slightly declining. Among these firms, the corporate owners of the Luke Paper Mill continue to generate headlines nationally about a possible near term bankruptcy.

Summary

The ongoing national and global economic instability has an impact on all communities, including Frostburg. For Fiscal Year 2014/15, the Frostburg region is showing more signs of economic difficulty related to the stagnation of current employers, wages and real estate values. The City government will carefully plan spending in light of these issues.

Budget Highlights for the Fiscal Year Ending June 30, 2016

Governmental Activities: Property tax revenue is expected to remain stable. The City will once again receive \$200,000 from Frostburg State University to enhance public safety salaries and training and provide support for first responders

Budgeted expenditures in the General Fund are expected to decrease 2 percent. Staffing changes and the resulting decrease in salaries expenditures in the Street Department, Community Development Department, and Recreation Department contribute to the overall decrease in budgeted expenditures in the General Fund.

Business – type Activities: The water rate will increase 34.9% and sewer rates will increase 16%. CSO surcharge, garbage, and water surcharge rates will remain the same as the previous fiscal year. Fees for water tap connections are unchanged for construction requiring the installation of a water tap. Fees for construction where a water tap exists have been established to provide for existing residential and commercial water tap credits to properties approved by the City Engineer. Meter fees are unchanged.

Capital projects budgeted include the continuation of the combined sewer overflow elimination projects with the completion of the Phase VIIB-2 and the start of Phase VIIIA CSO Project in the Sewer Fund; the completion of Phase II of the Savage Raw Water and Energy Conservation Project and the Supply Dam Relining Project in the Water Surcharge

**Management Discussion and Analysis
City of Frostburg**

Fund. The Braddock Road Improvement project continues in coordination with the Maryland State Highway Administration.

Requests for Information

This report is designed to provide an overview of the City finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Elaine Jones, CPA, P.O. Box 440, Frostburg, MD 21532, 301-689-6000 x13, ejones@frostburgcity.org.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET POSITION
JUNE 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 2,495,863	\$ 1,808,363	\$ 4,304,226
Certificate of deposit	98,669	-	98,669
Certificate of deposit - restricted	25,325	-	25,325
Accounts receivable	457,576	931,064	1,388,640
Internal balances	533,005	(533,005)	-
Total Current Assets	3,610,438	2,206,422	5,816,860
Capital Assets			
Non-depreciable	2,361,610	2,227,072	4,588,682
Depreciable, net of accumulated depreciation	7,721,889	26,617,876	34,339,765
Total Capital Assets, net of accumulated depreciation	10,083,499	28,844,948	38,928,447
Non-current Assets			
Notes receivable	35,785	-	35,785
Total Non-current Assets	35,785	-	35,785
TOTAL ASSETS	13,729,722	31,051,370	44,781,092
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	136,808	50,949	187,757
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued expenses	216,168	551,647	767,815
Salaries and benefits payable	42,005	6,493	48,498
Unearned revenue	25,000	164,306	189,306
Current portion of long-term debt	42,001	706,493	748,494
Total Current Liabilities	325,174	1,428,939	1,754,113
Noncurrent Liabilities:			
Compensated absences	335,992	179,862	515,854
Accrued post employment health insurance	54,648	20,149	74,797
Net pension liability	906,860	337,716	1,244,576
Long-term debt	64,781	8,357,686	8,422,467
Total Noncurrent Liabilities	1,362,281	8,895,413	10,257,694
TOTAL LIABILITIES	1,687,455	10,324,352	12,011,807
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	99,262	36,967	136,229
NET POSITION			
Net investment in capital assets	9,996,717	19,780,769	29,777,486
Restricted	310,430	-	310,430
Unrestricted	1,772,666	960,231	2,732,897
TOTAL NET POSITION	\$ 12,079,813	\$ 20,741,000	\$ 32,820,813

The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental Activities:							
General government	\$ 630,149	\$ 206,555	\$ -	\$ -	\$ (423,594)	\$ -	\$ (423,594)
Public safety	1,801,385	53,949	509,591	-	(1,237,445)	-	(1,237,445)
Public works	1,192,278	-	174,801	8,787	(1,008,690)	-	(1,008,690)
Recreation and parks	516,674	87,215	-	-	(429,459)	-	(429,459)
Community development	219,521	-	85,514	-	(134,007)	-	(134,007)
Code enforcement	154,565	250	-	-	(154,315)	-	(154,315)
Interest on long-term debt	40	-	-	-	(40)	-	(40)
Total Governmental Activities	4,514,612	347,969	770,306	8,787	(3,387,550)	-	(3,387,550)
Business-type Activities:							
Water	1,173,505	1,070,230	-	-	-	(103,275)	(103,275)
Sewer	1,787,490	1,586,032	-	900,404	-	698,946	698,946
Water Surcharge	961,581	631,242	-	344,404	-	14,065	14,065
Garbage	328,787	382,751	-	-	-	53,964	53,964
Total Business-type Activities	4,251,363	3,670,255	-	1,244,808	-	663,700	663,700
Total Primary Government	\$ 8,765,975	\$ 4,018,224	\$ 770,306	\$ 1,253,595	(3,387,550)	663,700	(2,723,850)
General Revenues:							
Taxes							
Net property taxes		2,295,563					2,295,563
Income taxes		470,163					470,163
Highway use tax		67,026					67,026
Hotel motel tax		160,702					160,702
Admission taxes		20,493					20,493
Rental income		93,088					93,088
Licenses and permits		49,882					49,882
Interest earnings		6,653			2,148		8,801
Capital contributions		63,046					63,046
Miscellaneous revenues		9,660					9,660
Loss on disposal of fixed assets		(5,417)			(1,049)		(6,466)
Transfers		294,888			(294,888)		-
Total General Revenues, Special Items, Extraordinary Items and Transfers		3,525,747			(293,789)		3,231,958
Change in Net Position		138,197			369,911		508,108
Net Position - July 1, 2014, as previously stated		12,824,329			20,697,100		33,521,429
Prior Period Adjustment		(882,713)			(326,011)		(1,208,724)
Net Position - July 1, 2014, as restated		11,941,616			20,371,089		32,312,705
Net Position - June 30, 2015		\$ 12,079,813			\$ 20,741,000		\$ 32,820,813

The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG, MARYLAND

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 2,100,377	\$ 395,486	\$ 2,495,863
Cash and cash equivalents - restricted	-	-	-
Certificate of deposit	98,669	-	98,669
Certificate of deposit - restricted	25,325	-	25,325
Accounts receivable	428,888	28,688	457,576
Interfund receivables	664,245	-	664,245
TOTAL ASSETS	<u>\$ 3,317,504</u>	<u>\$ 424,174</u>	<u>\$ 3,741,678</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued expenses	\$ 216,235	\$ -	\$ 216,235
Salaries and benefits payable	41,895	-	41,895
Advanced revenue	25,000	-	25,000
Interfund payables	1,711	129,529	131,240
TOTAL LIABILITIES	<u>284,841</u>	<u>129,529</u>	<u>414,370</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - Property taxes	157,593	-	157,593
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>157,593</u>	<u>-</u>	<u>157,593</u>
FUND BALANCES			
Nonspendable - Interfund receivables	664,245	-	664,245
Restricted - Community Development Block Grants	-	294,645	294,645
Unassigned	2,210,825	-	2,210,825
TOTAL FUND BALANCE	<u>2,875,070</u>	<u>294,645</u>	<u>3,169,715</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 3,317,504</u>	<u>\$ 424,174</u>	<u>\$ 3,741,678</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG, MARYLAND

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total Fund Balances - Governmental Funds		\$ 3,169,715
 Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets, net of accumulated depreciation		10,083,499
Notes receivable do not provide current resources and are not reported in the governmental funds.		35,785
Deferred outflows of resources related to pensions are not recognized in the fund statements		136,808
Accrued interest is recorded on fund statements only when due.		(43)
Long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds.		
Long-term debt	(64,781)	
Current portion of long-term debt	(42,001)	
Accrued post employment health insurance	(54,648)	
Net pension liability	(906,860)	
Compensated absences	(335,992)	
		(1,404,282)
Accounts receivable from taxes not collected within 60 days of year end are reported as deferred inflows of resources in the governmental funds.		157,593
Deferred inflows of resources related to pension plan actuarial assumptions and investment activity are not recognized in the governmental fund statements		(99,262)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		\$ 12,079,813

The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Special Revenue	Total Governmental Funds
REVENUES			
Taxes			
Net property tax revenue	\$ 2,307,089	\$ -	\$ 2,307,089
Income taxes	470,163	-	470,163
Hotel motel tax	160,702	-	160,702
Highway use tax	67,026	-	67,026
Other taxes	111,520	-	111,520
Police protection grant	160,267	-	160,267
Public safety revenue	78,217	-	78,217
Licenses and permits	49,882	-	49,882
COPS grants	52,595	-	52,595
Rental program revenue	74,489	-	74,489
Recreational activities	87,215	-	87,215
Grant income - other	479,428	85,514	564,942
Other income	24,071	44,866	68,937
Interest	3,826	2,828	6,654
	4,126,490	133,208	4,259,698
TOTAL REVENUES			
EXPENDITURES			
Administration	866,542	32,257	898,799
Public safety	1,776,753	-	1,776,753
Street department	909,776	-	909,776
Recreation department	417,174	-	417,174
Debt service	31,200	-	31,200
Capital outlays	310,135	73,731	383,866
	4,311,580	105,988	4,417,568
TOTAL EXPENDITURES			
EXCESS(DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			
	(185,090)	27,220	(157,870)
OTHER FINANCING SOURCES (USES)			
Interfund transfers	294,888	-	294,888
Proceeds from sale of capital assets	11,425	-	11,425
Rental income	93,088	-	93,088
	399,401	-	399,401
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	214,311	27,220	241,531
FUND BALANCE - JULY 1, 2014	2,660,759	267,425	2,928,184
FUND BALANCE - JUNE 30, 2015	\$ 2,875,070	\$ 294,645	\$ 3,169,715

The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG, MARYLAND

RECONCILIATION OF THE GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Total Net Change in Fund Balance - Governmental Funds		\$ 241,531
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		
Expenditures for capital assets	310,135	
Less current year depreciation	<u>(435,991)</u>	(125,856)
Governmental funds report the proceeds from the sale of capital assets as income; however, in the statement of activities the sale of capital assets are reported net of the remaining book value of the assets as either gain or loss.		
Net book value of disposed capital assets in the statement of activities		(16,842)
Repayment of note proceeds is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		31,200
Government funds do not report donations of capital. However, in the statement of activities, the fair market value of the donated assets are reported as Capital Contributions		63,046
Governmental funds report notes issued to citizens for capital improvements as expenditures and the subsequent repayments of these notes as income; however, these transactions are not reported in the statement of activities.		
Proceeds from notes receivable	<u>(44,866)</u>	(44,866)
Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in governmental funds.		
Change in deferred inflows of resources from taxes		(11,525)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Change in deferred outflows of resources related to pensions		19,704
Change in accrued interest		177
Change in accrued post employment health insurance		(5,228)
Change in compensated absences		(6,839)
Change in accrued pension liability		92,957
Change in deferred inflows of resources related to pensions		<u>(99,262)</u>
TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 138,197</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2015

	Water	Sewer	Water Surcharge	Garbage	Total
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 499,696	\$ 57,521	\$ 962,009	\$ 289,137	\$ 1,808,363
Accounts receivable	170,395	369,293	313,544	77,832	931,064
Due from other funds	-	1,058	-	653	1,711
Due from other proprietary funds	50,572	-	-	-	50,572
Total Current Assets	<u>720,663</u>	<u>427,872</u>	<u>1,275,553</u>	<u>367,622</u>	<u>2,791,710</u>
Capital Assets					
Non-depreciable	-	1,486,271	740,801	-	2,227,072
Depreciable, net of accumulated depreciation	960,950	11,815,301	13,801,907	39,718	26,617,876
Total Capital Assets, net of accumulated depreciation	<u>960,950</u>	<u>13,301,572</u>	<u>14,542,708</u>	<u>39,718</u>	<u>28,844,948</u>
TOTAL ASSETS	<u>1,681,613</u>	<u>13,729,444</u>	<u>15,818,261</u>	<u>407,340</u>	<u>31,636,658</u>
Deferred Outflows of Resources					
Deferred outflows of resources related to pensions	21,494	17,580	-	11,875	50,949
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable and accrued expenses	44,961	423,102	73,564	10,020	551,647
Salaries and benefits payable	1,968	2,337	1,113	1,075	6,493
Due to other funds	534,716	-	-	-	534,716
Unearned revenue	-	67,806	47,991	48,509	164,306
Due to other proprietary funds	-	-	50,572	-	50,572
Current portion of long-term debt	-	38,761	667,732	-	706,493
Total Current Liabilities	<u>581,645</u>	<u>532,006</u>	<u>840,972</u>	<u>59,604</u>	<u>2,014,227</u>
Noncurrent Liabilities					
Compensated absences	90,803	41,102	-	47,957	179,862
Accrued post employment health insurance	6,981	8,132	-	5,036	20,149
Net pension liability	142,475	116,529	-	78,712	337,716
Notes payable, less current portion	-	445,895	7,911,791	-	8,357,686
Total Noncurrent Liabilities	<u>240,259</u>	<u>611,658</u>	<u>7,911,791</u>	<u>131,705</u>	<u>8,895,413</u>
TOTAL LIABILITIES	<u>821,904</u>	<u>1,143,664</u>	<u>8,752,763</u>	<u>191,309</u>	<u>10,909,640</u>
Deferred Inflows of Resources					
Deferred inflows of resources related to pensions	15,596	12,755	-	8,616	36,967
Net Position					
Net investment in capital assets	960,950	12,816,916	5,963,185	39,718	19,780,769
Unrestricted - undesignated	(95,343)	(226,311)	1,102,313	179,572	960,231
Total Net Position	<u>\$ 865,607</u>	<u>\$ 12,590,605</u>	<u>\$ 7,065,498</u>	<u>\$ 219,290</u>	<u>\$ 20,741,000</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015

	Water	Sewer	Water Surcharge (Restricted)	Garbage	Total
OPERATING REVENUES	\$ 1,070,230	\$ 1,586,032	\$ 631,242	\$ 382,751	\$ 3,670,255
OPERATING EXPENSES					
Depreciation and amortization	108,695	511,043	755,798	13,467	1,389,003
Sewer operating	-	1,013,935	-	-	1,013,935
Salaries and wages	241,901	160,425	-	134,040	536,366
Filtration contract payments	373,322	-	-	-	373,322
Employee benefits	85,993	64,233	8,170	49,944	208,340
Other	107,719	16,413	16,006	18,944	159,082
Landfill charges	-	-	-	92,154	92,154
Distribution	94,656	-	-	-	94,656
Pumping system	92,067	-	-	-	92,067
Payroll taxes	17,632	12,986	-	9,861	40,479
Meters expense	51,520	-	-	-	51,520
Sanitation operating	-	-	-	10,377	10,377
Total Operating Expenses	<u>1,173,505</u>	<u>1,779,035</u>	<u>779,974</u>	<u>328,787</u>	<u>4,061,301</u>
Operating Income (Loss)	<u>(103,275)</u>	<u>(193,003)</u>	<u>(148,732)</u>	<u>53,964</u>	<u>(391,046)</u>
NON-OPERATING REVENUE (EXPENSES)					
Project reimbursements	-	900,404	344,404	-	1,244,808
Interest revenue	446	-	1,613	89	2,148
Loss on disposal of assets	(1,049)	-	-	-	(1,049)
Interest expense	-	(8,455)	(181,607)	-	(190,062)
Total Non-operating Revenues (Expenses)	<u>(603)</u>	<u>891,949</u>	<u>164,410</u>	<u>89</u>	<u>1,055,845</u>
Income (Loss) Before Transfers	<u>(103,878)</u>	<u>698,946</u>	<u>15,678</u>	<u>54,053</u>	<u>664,799</u>
Transfers out	<u>(132,366)</u>	<u>(144,220)</u>	<u>-</u>	<u>(18,302)</u>	<u>(294,888)</u>
Change in Net Position	<u>(236,244)</u>	<u>554,726</u>	<u>15,678</u>	<u>35,751</u>	<u>369,911</u>
TOTAL NET POSITION - JULY 1, 2014, as previously stated	1,239,667	12,147,710	7,049,820	259,903	20,697,100
Prior Period Adjustment	<u>(137,816)</u>	<u>(111,831)</u>	<u>-</u>	<u>(76,364)</u>	<u>(326,011)</u>
TOTAL NET POSITION - JULY 1, 2014, as restated	<u>1,101,851</u>	<u>12,035,879</u>	<u>7,049,820</u>	<u>183,539</u>	<u>20,371,089</u>
TOTAL NET POSITION - JUNE 30, 2015	<u>\$ 865,607</u>	<u>\$ 12,590,605</u>	<u>\$ 7,065,498</u>	<u>\$ 219,290</u>	<u>\$ 20,741,000</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Water	Sewer	Water Surcharge	Garbage	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 1,085,278	\$ 1,586,274	\$ 806,476	\$ 380,324	\$ 3,858,352
Payments to vendors	(912,949)	(1,278,503)	(38,926)	(177,795)	(2,408,173)
Payments to employees	(244,375)	(181,796)	-	(134,915)	(561,086)
Net Cash Provided By (Used In) Operating Activities	<u>(72,046)</u>	<u>125,975</u>	<u>767,550</u>	<u>67,614</u>	<u>889,093</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers out	16,580	(166,884)	(126,281)	(18,302)	(294,887)
Change in due to/from other funds	182,972	(111,544)	-	(11,575)	59,853
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>199,552</u>	<u>(278,428)</u>	<u>(126,281)</u>	<u>(29,877)</u>	<u>(235,034)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from sale of assets	1,150	-	-	-	1,150
Purchase of capital assets	(44,248)	(1,076,325)	(1,098,885)	-	(2,219,458)
Principal paid on loans	-	(33,846)	(632,050)	-	(665,896)
Proceeds from loan	-	70,347	320,482	-	390,829
Project reimbursements	-	958,046	146,854	-	1,104,900
Interest paid on loans	-	(7,717)	(181,943)	-	(189,660)
Net Cash Used In Capital and Related Financing Activities	<u>(43,098)</u>	<u>(89,495)</u>	<u>(1,445,542)</u>	<u>-</u>	<u>(1,578,135)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest earned	446	-	1,613	89	2,148
Net change in Cash	84,854	(241,948)	(802,660)	37,826	(921,928)
Cash and cash equivalents, beginning of year	414,842	299,469	1,764,669	251,311	2,730,291
Cash and cash equivalents, end of year	<u>\$ 499,696</u>	<u>\$ 57,521</u>	<u>\$ 962,009</u>	<u>\$ 289,137</u>	<u>\$ 1,808,363</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$ (103,275)	\$ (193,003)	\$ (148,732)	\$ 53,964	\$ (391,046)
Adjustments Not Affecting Cash					
Depreciation	108,695	511,043	755,798	13,467	1,389,003
Pension expense	18,194	15,767	-	9,825	43,786
Change in assets, liabilities, and deferred outflows and inflows					
Accounts receivable	15,048	(19,306)	178,873	(18,111)	156,504
Accounts payable and accrued expenses	(89,903)	(172,610)	(14,750)	2,332	(274,931)
Salaries and benefits payable	(8,323)	(7,088)	-	(4,617)	(20,028)
Unearned revenue	-	19,548	(3,639)	15,684	31,593
Accrued health insurance	1,102	1,801	-	2,064	4,967
Compensated absences	5,849	(14,283)	-	3,742	(4,692)
Deferred outflows of resources - pension contributions	(19,433)	(15,894)	-	(10,736)	(46,063)
Total Adjustments	<u>31,229</u>	<u>318,978</u>	<u>916,282</u>	<u>13,650</u>	<u>1,280,139</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ (72,046)</u>	<u>\$ 125,975</u>	<u>\$ 767,550</u>	<u>\$ 67,614</u>	<u>\$ 889,093</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 **REPORTING ENTITY**

The City of Frostburg, Maryland (the "City") was incorporated in 1870 and adopted its first Charter in 1885. The City operates under a Council-Administrator form of government per Charter Revision Resolution No. 23 adopted July 1, 1981. The City of Frostburg adopted Charter Revision Resolution No. 2001-17 on December 21, 2001, effective February 2, 2002 which repealed the 1981 edition and also provides the following services as authorized by its Charter: public safety (police and fire), public works (maintenance, sewer, streets, and water), recreation, community development and general administrative services.

In evaluating how to define the City of Frostburg, Maryland, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, and the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibility. Based upon the application of these criteria, no potential component units were identified for inclusion in the reporting entity.

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in conformity with GAAP as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental (primarily supported by taxes, County appropriations and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges).

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - Continued

expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each enterprise and governmental fund was a major fund and is presented in a separate column.

B. Fund Accounting

The accounts of the City are organized on the basis of funds that are each considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, deferred inflows of resources, fund equity, revenues and expenses or expenditures. The following funds are used by the City:

Governmental Fund Types

General Fund

The General Fund is the general operating fund of the City. All financial resources, except those required to be accounted for in another fund, are accounted for in this fund.

Special Revenue Funds

The Community Development Block Grant Fund is a special revenue fund used to account for the revenue from Community Development Block Grants received by the City of Frostburg. In the event an expenditure is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are used first.

Proprietary Fund Types

Water, Sewer, Water Surcharge, and Garbage Funds

The Water, Sewer, Water Surcharge, and Garbage Funds are enterprise funds used to account for the operations which are financed and operated in a manner similar to private businesses.

The intent is that the cost of providing the services to the public is to be financed or recovered primarily through user charges.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** – Continued

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (e.g., revenues and other financing sources) and uses (e.g., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net position. The statement of changes in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its enterprise funds.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue and in the presentation of expenses versus expenditures.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. Penalties and interest and miscellaneous revenues are recorded when received in cash since they are generally not measurable until actually collected. Expenditures are recorded when the related fund liability is incurred.

The proprietary funds are accounted for on a flow of economic resources measurement focus. The accrual basis of accounting is utilized by the proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All GASB pronouncements are followed in the proprietary funds. FASB, APB Opinions and ARB's issued before November 30, 1989 are followed to the extent they do not contradict GASB. FASB pronouncements issued after November 30, 1989 that are developed for business entities are followed to the extent that they do not contradict GASB.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** - Continued

The City reports unearned revenue on its combined balance sheet. Unearned revenues arise when resources are billed or received by the City before it has a legal claim to them, such as when utility surcharges are billed for future periods or grant monies are received prior to qualifying expenditures being incurred. In subsequent periods, where both revenue recognition criteria are met and when the City has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

E. Budgets and Budgetary Accounting

Formal budgetary accounting, as set forth in the City Charter, is employed as a management control for the General Fund and the Water, Sewer, Water Surcharge, and Garbage enterprise funds. Annual operating budgets are adopted by the City each fiscal year through passage of an annual budget and amended as required for all funds. Budget amendments requiring a change between categories requires approval by the Mayor and City Council. The budget reconciliation has been provided to reflect the differences between budgetary inflows and outflows and GAAP revenues and expenses/expenditures. Budgets presented in the financial statements reflect all amendments.

The budget for the Enterprise Funds is adopted under the GAAP basis of accounting except that depreciation is not considered and fixed assets additions are treated as an expense. The City does not budget for the Special Revenue Fund since budgetary control is maintained on an individual grant basis.

F. Cash and Equivalents

For financial statement purposes, the City considers all short-term, highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

G. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds.

General capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the fund statements.

All capital assets are capitalized at cost (or estimated historical cost). When a capital asset is disposed or retired, the cost and related accumulated depreciation are removed from the books with any gain or loss reflected as income. The City maintains a capitalization threshold of \$5,000. Public domain ("infrastructure") general fixed assets including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are capitalized along with other general fixed assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** - Continued

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives.

Land improvements	10-20 years
Building and improvements	25-40 years
Machinery and equipment	5-10 years
Infrastructure and utility systems	20-40 years

In the Water Fund, depreciation is recorded at a rate of 2.2% of the current year acquisitions and 3.33% of the prior years fixed asset balance for infrastructure. Machinery and equipment is depreciated as per the schedule above. Depreciation was recorded at the rate of 2.5% for water improvements and the Piney Dam construction projects.

H. Capitalized Interest

Interest costs incurred by proprietary funds on debt where the proceeds were used to finance the construction of assets are capitalized unless interim financing is not required.

I. Compensated Absences

The City has implemented the provisions of the Governmental Accounting Standards Board's Accounting for Compensated Absences. This statement requires the recording of accumulated unused sick leave, compensatory time, and vacation leave if such amounts will be paid as termination benefits. The liability is calculated by taking the total hours of time outstanding at June 30 times the current rate of pay for each employee. One paid sick day is accrued for each month of service after the probationary period. Upon termination of employment, the accumulated sick leave is lost. Upon reaching the age of 60 and retirement, the employee is paid for up to 90 days of unused sick leave at the employee's current rate of pay.

At June 30, 2015, no liability has been recorded for the current portion of compensated absences as the City feels that absences used during the next year will not materially exceed the absences earned during the next year. Therefore, all compensated absences are recorded as long-term. The long-term portion of this liability of \$515,854 has been recorded in the government-wide statement of net position, of which \$179,862 is from business-type activities. This represents an increase of \$2,148 from the prior year total of \$513,706. The change in compensated absences for business-type activities was an decrease of \$4,692.

J. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** - Continued

expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Interfund transfers for the year ended June 30, 2015 consisted of transfers of \$132,366 from the Water Fund, \$144,220 from the Sewer Fund, and \$18,302 from the Garbage Fund to the General Fund to help cover administrative overhead costs.

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances. Interfund balances have no set repayment schedule and are generally not expected to be repaid within one year.

The composition of interfund balances as of June 30, 2015 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$ 534,716
Sewer	General	(1,058)
Garbage	General	(653)
		<u>\$ 533,005</u>

L. Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the statement of net position/balance sheet will sometimes report separate sections for deferred outflows and inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) or inflow of resources (revenue) until that time. The City has two type of these items. Accordingly, unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. Deferred outflows and inflows relating to pensions are described in Note 8

M. Fund Balance

The City is required to report its fund balance within the following classifications on the governmental fund financial statements: nonspendable, restricted, committed, assigned, and unassigned. The City Council is the City's highest level of decision-making authority and a formal resolution by them at the City Council meeting is required to be taken to establish, modify, or rescind a fund balance commitment. The resolution must be approved or rescinded by them prior to the last day of the fiscal year for which the commitment is made. The amount subject to the restraint may be determined in the subsequent period.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - Continued

The City Council has authorized the City's Finance Director to assign fund balance amounts to a specific purpose as approved by the City's fund balance policy.

In the event the City incurs expenditures where restricted and unrestricted resources can be used, the City will use restricted resources first. In the event expenditure is made from multiple unrestricted resources, the City's order of spending will be committed, assigned, and unassigned.

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are for services primarily provided by the Water, Water Surcharge, Sewer, and Garbage Funds to the general public. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

O. Property Taxes

Taxes are levied each July 1 on the assessed value listed as of the prior January 1 for all real property located within City boundaries which receive substantially all City services and payable without penalty until September 30. The City bills and collects its own property taxes. City property tax revenues are recognized when levied to the extent that they result in current receivables. Assessed values are established by the Maryland Department of Assessments and Taxation based on estimates of fair market value. A revaluation of all property is required to be completed every three years and any increase in assessed value is phased in over a three year period. For the year ended June 30, 2015, the City had a tax margin of \$.5820 per \$100 assessed valuation.

P. Pensions

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension, and pension expense, information about the fiduciary net position of the Maryland State Retirement and Pension System ("the System") and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Q. Credit Risk

As of June 30, 2015, the City has recorded receivables from various entities and individuals. As these receivables are believed to be completely collectable, an allowance for doubtful accounts is not recorded. If an account is determined to be uncollectible, the direct write-off method is used. This does not produce a result materially different from the allowance method of accounting.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - Continued

R. Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 CASH AND INVESTMENTS

The cash deposits of the City of Frostburg are governed by Maryland Article 95-22. The City may establish official depositories with any bank or savings and loan located in the state of Maryland. The City may also establish time deposits and certificates of deposit. As of June 30, 2015, the reconciled balances of the City's deposits were \$4,428,220 and the bank balances were \$4,749,911. Of the bank balances, \$374,641 was covered by federal depository insurance and \$4,375,270 was covered by collateral held by the financial institutions in the City's name.

The investment policy of the City is to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds.

The primary objectives, in priority order, of the City's investment activities shall be safety, liquidity, and return on investment.

At June 30, 2015, the City had a certificate of deposit in the amount of \$98,669 held at a local financial institution which matures in April 2017. The City also had a certificate of deposit in the amount of \$25,325 held at a local financial institution and restricted for a playground fund. This certificate of deposit matures in May 2017. Both certificates of deposit are included in the City's deposit figure of \$4,428,220.

Interest Rate Risk – In accordance with its investment policy, the City manages its exposure to declines in fair values arising from interest rates by limiting the maturity date of securities to no more than one year from the date of purchase, unless it is matched to a specific cash flow requirement.

Credit Risk – The City's investment policy limits the investments of the portfolio to 5% commercial paper, 50% money market mutual funds, 40% bankers' acceptance, 40% collateralized certificates of deposit, 90% repurchase agreements, and 90% U.S. government agency and U.S. government sponsored instruments.

Custodial Credit Risk – Deposits and investments are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-city's name. All of the City's deposits are covered by depository insurance and collateralized with securities held by the financial institution in the City's name, therefore mitigating custodial credit risk.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 **ACCOUNTS RECEIVABLE**

The City's accounts receivable as of June 30, 2015 consisted of the following:

	Governmental	Water	Sewer	Water Surcharge	Garbage	Total
Taxes	\$ 179,601	\$	\$	\$	\$	\$ 179,601
Intergovernmental	238,895		25,255	237,577		501,727
Charge for services		166,675	294,722	74,612	76,563	612,572
Interest		1,455	3,139	1,355	1,269	7,218
Other	39,080	2,265	46,177			87,522
Total	\$ 457,576	\$ 170,395	\$ 369,293	\$ 313,544	\$ 77,832	\$ 1,388,640

At the end of the current fiscal year, \$164,306 of unearned revenues were recognized for billings done prior to June 30, 2015 that were for services after June 30, 2015 in the proprietary funds. In addition, \$157,593 of deferred inflows of resources were recognized as a result of unavailable revenue from property taxes in the governmental fund statements.

NOTE 5 **CAPITAL ASSETS**

Depreciation expense for governmental capital assets was charged to the following accounts as follows for the year ended June 30, 2015:

General Government	\$ 96,043
Public Safety	28,921
Public Works	212,827
Recreation and Parks	98,200
Total	<u>\$ 435,991</u>

(Note 5 continues on page 35.)

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 **CAPITAL ASSETS** – Continued

The following is a summary of the changes in the fixed asset accounts for the year ended June 30, 2015:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
(Corporate)					
Non-depreciable Assets					
Land	\$ 2,095,685	\$ 59,500	\$ -	\$ -	\$ 2,155,185
Construction-in-progress	212,116	-	(5,691)	-	206,425
Total Non-depreciable Assets	2,307,801	59,500	(5,691)	-	2,361,610
Depreciable Assets					
Land Improvements	1,063,932	-	-	-	1,063,932
Buildings and Improvements	4,946,590	-	-	-	4,946,590
Infrastructure	5,942,708	116,110	-	-	6,058,818
Machinery & equipment	1,391,402	199,362	(133,483)	-	1,457,281
Total Depreciable Assets	13,344,632	315,472	(133,483)	-	13,526,621
Less, Accumulated Depreciation for:					
Land Improvements	546,721	53,081	-	-	599,802
Buildings and Improvements	1,983,894	117,312	-	-	2,101,206
Infrastructure	2,071,238	169,079	-	-	2,240,317
Machinery & equipment	887,429	96,519	(120,541)	-	863,407
Total Accumulated Depreciation	5,489,282	435,991	(120,541)	-	5,804,732
Depreciable Assets, net of accumulated depreciation	7,855,350	(120,519)	(12,942)	-	7,721,889
Total Governmental Capital Assets, net of accumulated depreciation	\$10,163,151	\$ (61,019)	\$ (18,633)	\$ -	\$ 10,083,499
Business-type Activities					
(Water, Water Surcharge, Sewer, and Garbage)					
Non-depreciable Assets					
Land	\$ 48,299	\$ -	\$ -	\$ -	\$ 48,299
Construction-in-progress	1,280,643	1,843,929	-	(945,799)	2,178,773
Total Non-depreciable Assets	1,328,942	1,843,929	-	(945,799)	2,227,072
Depreciable Assets					
Land Improvements	15,353,284	-	-	-	15,353,284
Buildings and Improvements	8,309,171	-	-	-	8,309,171
Infrastructure	20,341,543	13,222	-	945,799	21,300,564
Machinery & equipment	1,167,396	271,223	(5,000)	-	1,433,619
Total Depreciable Assets	45,171,394	284,445	(5,000)	945,799	46,396,638
Less, Accumulated Depreciation for:					
Land Improvements	7,442,188	336,832	-	-	7,779,020
Buildings and Improvements	4,731,699	268,927	-	-	5,000,626
Infrastructure	5,361,349	698,978	-	-	6,060,327
Machinery & equipment	857,324	84,266	(2,801)	-	938,789
Total Accumulated Depreciation	18,392,560	1,389,003	(2,801)	-	19,778,762
Depreciable Assets, net of accumulated depreciation	26,778,834	(1,104,558)	(2,199)	945,799	26,617,876
Total Business-type Capital Assets, net of accumulated depreciation	\$28,107,776	\$ 739,371	\$ (2,199)	\$ -	\$ 28,844,948

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 **LONG TERM DEBT**

The following is a summary of the changes in long-term debt for the year ended June 30, 2015:

	Outstanding 6/30/2014	Additions	Reductions	Outstanding 6/30/2015	Due Within One Year
Governmental Activities					
Bonds & Notes Payable					
Susquehanna Bank	\$ 9,982	\$ -	\$ (9,982)	\$ -	\$ -
Susquehanna Bank - Plow Truck	108,000	-	(21,218)	86,782	22,001
State of MD - DHCD	20,000	-	-	20,000	20,000
Subtotal	137,982	-	(31,200)	106,782	42,001
Other Obligations					
Compensated Absences	329,152	6,840	-	335,992	-
Accrued post employment health insurance	49,420	5,228	-	54,648	-
Net pension liability	999,817	-	(92,957)	906,860	-
Total Governmental Activity Long-term Obligations	<u>\$ 1,516,371</u>	<u>\$ 12,068</u>	<u>\$ (124,157)</u>	<u>\$ 1,404,282</u>	<u>\$ 42,001</u>
Business-type Activities					
Bonds & Notes Payable					
MDE - Emergency Sewer Project	\$ 105,868	-	\$ (16,573)	\$ 89,295	\$ 17,059
USDA - Raw Water Line/Hydro Electric	891,716	-	(15,864)	875,852	16,184
MDE - CSO Phase VIIA	264,518	-	(13,603)	250,915	13,726
Suntrust - Piney Dam Project	4,950,000	-	(306,000)	4,644,000	318,000
Suntrust - CDA Refinancing	3,049,375	-	(310,186)	2,739,189	317,181
MDE - CSO Phase VIIB	77,768	-	(3,669)	74,099	3,702
MDE - Savage Raw Water	-	320,482	-	320,482	16,367
MDE - CSO Phase VIIB-2	-	70,347	-	70,347	4,274
Subtotal	9,339,245	390,829	(665,895)	9,064,179	706,493
Other Obligations					
Compensated Absences	184,554	-	(4,692)	179,862	-
Accrued post employment health insurance	15,182	4,967	-	20,149	-
Net pension liability	372,335	-	(34,619)	337,716	-
Total Business-type Activity Long-term Obligations	<u>\$ 9,911,316</u>	<u>\$ 395,796</u>	<u>\$ (705,206)</u>	<u>\$ 9,601,906</u>	<u>\$ 706,493</u>

The bond payable to Susquehanna Bank was payable in variable annual installments of principal plus semi-annual installments for interest at 4.4% on the outstanding balance. The bond was uncollateralized and had 1 installment of principal and interest remaining. The loan was paid off on August 13, 2014 with a savings of \$7,731 from early extinguishment.

The capital lease payable to Susquehanna Bank is payable in 60 monthly installments of \$2,066 including interest at 3.63% on the outstanding balance. The lease has 45 monthly installments remaining and is collateralized by a plow truck. The original cost of the vehicle was \$116,161 with a current book value of \$100,673. The related amortization of the truck is included in depreciation expense.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 **LONG TERM DEBT** - Continued

On May 15, 2009, the City received a \$100,000 loan from the Maryland Department of Housing and Community Development (a portion of which, up to \$80,000 may be forgiven) for the purpose of funding Community Legacy Rehabilitation Projects. The City feels it has completed all the requirements for the maximum amount to be forgiven. The remaining \$20,000 portion of the loan not subject to forgiveness carries a 0.0% interest rate and had a maturity date of December 31, 2014. The City has not discounted the loan for the below market interest rate being carried on the loan. The City intends to repay the \$20,000 when the funds are requested by the state.

The bond payable to the Maryland Department of Environment is payable in variable annual installments of principal and issuance fees plus semi-annual installments for interest at 2.50% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$979. The bond has 5 installments of principal, interest, and issuance costs and an additional 5 installments of interest only remaining.

The loan payable to the United States Department of Agriculture is for the water transmission hydro-electric project. There are 148 quarterly installments of \$8,395 representing principal and interest remaining. The loan carries an interest rate of 2%.

On January 12, 2012, the City was notified by Maryland Department of the Environment that revolving loan funds in the amount of \$279,000 were available to the City for Phase VII-A, Taylor Street CSO Elimination Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$760. The loan is payable in 17 installments of principal, interest, and issuance costs and an additional 17 installments of interest only.

The loan payable to Suntrust Bank for the Piney Dam project is payable in variable annual installments of principal and semi-annual installments of interest at 2.00% on the balance outstanding. The loan is payable in 13 installments of principal and interest and an additional 13 installments of interest only.

The CDA loan payable to Suntrust Bank is payable in variable annual installments of principal plus semi-annual installments of interest at 2.14% on the outstanding balance. The bond has 8 installments of principal and interest and an additional 8 installments of interest only remaining.

Maryland Department of the Environment provided forgivable loan funding of \$460,301 and loan funding in the amount of \$77,768 to the City for Phase VIIB, Paul Street CSO Elimination Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest only at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$203. The loan is payable in 19 installments of principal, interest and issuance fees plus 19 semi-annual installments of interest only. The City has not accrued a liability for repayment of the forgivable portion of the project. MDE will forgive the debt on April 25, 2023 if the City meets all requirements of the loan agreement. The City fully intends to meet all these requirements.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 **LONG TERM DEBT** - Continued

On October 24, 2014, Maryland Department of the Environment provided forgivable loan funding of \$112,500 and loan funding in the amount of \$337,500 to the City for the Savage Raw Water and Energy Conservation Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest only at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$972. The loan is payable in 20 installments of principal, interest and issuance fees plus 18 semi-annual installments of interest only. The City has not accrued a liability for repayment of the forgivable portion of the project. MDE will forgive the debt on October 24, 2024 if the City meets all requirements of the loan agreement. The City fully intends to meet all these requirements. As of June 30, 2015, the City has drawn \$320,482 of the loan funds subject to repayment and the entire amount of the forgivable loan funding. The repayment schedule for long-term debt included in Note 6 is based on the total loan amount.

On May 30, 2014, Maryland Department of the Environment provided loan funding of \$94,120 to the City for the Phase VIIB-2, Paul Street CSO Elimination Project. The loan is payable in annual installments of principal, interest, and issuance fees of \$5,216 plus semi-annual installments of interest only at 1.00% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$261. The loan is payable in 20 installments of principal, interest and issuance fees plus 20 semi-annual installments of interest only. As of June 30, 2015, the City has drawn \$70,347 of the loan funds. The repayment schedule for long-term debt included in Note 6 is based on the total loan amount.

The annual requirements to amortize all general long-term debt, as of June 30, 2015 are as follows:

Fiscal Year	Governmental Activities		Business-type Activities		Total		
	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Total
2016	42,001	2,787	706,493	181,584	748,494	184,371	932,865
2017	22,813	1,974	722,037	167,044	744,850	169,018	913,868
2018	23,655	1,132	732,902	152,464	756,557	153,596	910,153
2019	18,313	278	748,769	137,653	767,082	137,931	905,013
2020	-	-	763,287	122,466	763,287	122,466	885,753
2021-2025	-	-	3,195,008	382,823	3,195,008	382,823	3,577,831
2026-2030	-	-	1,493,098	136,083	1,493,098	136,083	1,629,181
2031-2035	-	-	261,321	64,990	261,321	64,990	326,311
2036-2040	-	-	125,550	42,346	125,550	42,346	167,896
2041-2045	-	-	138,719	29,176	138,719	29,176	167,895
2046-2050	-	-	153,269	14,625	153,269	14,625	167,894
2051-2055	-	-	64,517	1,405	64,517	1,405	65,922
	<u>\$ 106,782</u>	<u>\$ 6,171</u>	<u>\$ 9,104,970</u>	<u>\$ 1,432,659</u>	<u>\$ 9,211,752</u>	<u>\$ 1,438,830</u>	<u>\$ 10,650,582</u>

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 **LONG TERM DEBT** - Continued

The source of funds for debt retirement is as follows:

	Debt Amount
General revenue	\$ 86,782
Community legacy note repayments	20,000
Sewer charges	484,656
Water surcharges	<u> 8,579,523</u>
	<u><u> \$ 9,170,961</u></u>

All compensated absences in the governmental activities will be paid out of the general fund. All compensated absences in the proprietary funds will be paid out of the funds where the liability was incurred. The City feels employee absences for the next year will not exceed the leave accrued by the employees during the year, thus the entire balance of compensated absences is considered to be long-term.

The City incurred interest of \$3,599 in the General Fund, of which \$3,559 is included in Public Works, and the City incurred interest of \$190,062 in the Proprietary Funds.

NOTE 7 **RESTRICTED ASSETS - WATER SURCHARGE FUND**

The Water Surcharge Fund is a restricted fund to be used for the improvements, construction, debt service, and other capital projects of the Piney Dam and the Water Treatment Plant. Fund income is derived from a surcharge to water service customers.

NOTE 8 **PENSION PLAN**

Plan Description - The City contributes to the Maryland State Retirement and Pension System (SRPS), a cost sharing multiple-employer defined benefit pension plan administered by the State of Maryland for all employees working more than 500 hours in a year. The SRPS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Article 73B of the Annotated Code of the State of Maryland assigns the authority to establish and amend benefit provisions to the SRPS Board of Trustees. The State of Maryland issues a publicly available financial report that includes financial statements and required supplementary information for SRPS. That report may be obtained by writing to Maryland State Retirement and Pension System, 120 East Baltimore Street, Baltimore, Maryland 21202 or at www.sra.state.md.us.

Benefits Provided - For all individuals who are members, pension allowances are computed using both the highest three-consecutive year's Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. Various pension options are available under the SRPS which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 **PENSION PLAN** - Continued

An individual who is a member of the SRPS is eligible for full pension benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. Members who attain age 55 with at least 15 years of service eligibility are also eligible for early service pension benefits. The early service benefit is at a reduced rate based on the number of months the retirement dates precedes the date on which the member reaches age 62. Members who terminate employment before attaining age 62 but after accumulating 5 years of eligibility service is eligible for a vested pension allowance. Members who terminate employment before attaining age 55 with at least 15 years of eligibility service are eligible for a reduced vested pension allowance if they elect to receive benefits prior to attaining retirement age 62.

Employees who are permanently and totally disabled as the result of an accident occurring in the line of duty are eligible for disability regardless of length of service. Five years of service is required for non-service related disability eligibility. Accidental disability benefits are determined as a percentage of AFC. Non-service related disability payments are calculated as though members had accrued service credits up until attaining age 62.

All members who have accumulated at least one year of service eligibility prior to date of death or died in the line of duty are eligible for death benefits. Death benefits are generally equal to the member's annual salary as of the date of death plus accumulated contributions. Under certain circumstances, additional death benefit options are available.

All member benefits are adjusted each year on July 1 based on the Consumer Price Index (CPI). The increase is limited to 3% for an individual who is a member of the SRPS prior to July 1, 2011. The increase is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market rate of return was greater than or equal to the assumed rate. Retirement allowances will not be adjusted in years when there is a decline in CPI.

Contributions - Members of the contributory pension systems are required to make contributions of 2% of earnable compensation. The City is required to contribute annually at an actuarially determined rate. The contribution rate for the year ending June 30, 2015 was 6.20% plus a 2.42% surcharge totaling 8.62% of covered payroll. The contribution requirements of plan members and the City are established and may be amended by the SRPS Board of Trustees. The City contribution to SRPS was \$169,575 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions - At June 30, 2015, the City reported a liability of \$1,244,576 for its proportionate share of the System's liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions to the pension plan relative to the total contributions made by all participating employers to the plan for the year ended June 30, 2014, actuarially determined. At June 30, 2014, the City's proportion was 0.007 percent.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 **PENSION PLAN** - Continued

For the year ended June 30, 2015, the City recognized pension expense of \$154,076. At June 30, 2015, the City reported deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 18,004	
Net difference between projected and actual earnings on pension plan investments		\$ 136,229
City contributions subsequent to the measurement date	169,753	
Total	<u>\$ 187,757</u>	<u>\$ 136,229</u>

The City reported \$169,753 as deferred outflows of resources related to pensions resulting from City contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>For the year ended June 30,</u>	<u>Amount</u>
2016	\$ (23,645)
2017	(23,645)
2018	(23,645)
2019	(23,645)
2020	(23,645)
Thereafter	-
Total	<u>\$ (118,225)</u>

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following key actuarial assumptions, applied to all periods included in the measurement:

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Inflation	2.9% General, 3.4% Wage
Salary Increases	3.4% to 11.9%, including inflation
Discount Rate	7.65%
Investment Rate of Return	7.65%
Mortality	RP-2000 Combined Healthy Mortality Table projected to the year 2025

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 **PENSION PLAN** - Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	35.0%	4.7%
Fixed Income	10.0%	2.0%
Credit Opportunity	10.0%	3.0%
Real Return	14.0%	2.8%
Absolute Return	10.0%	5.0%
Private Equity	10.0%	6.3%
Real Estate	10.0%	4.5%
Cash	1.0%	1.4%
	<u>100.0%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.65%, which is based on the expected rate of return on pension plan investments. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at contractually required rates (actuarially determined), and contributions from the State will be made at current statutorily required rates. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is a percentage point lower (6.65%) or a percentage point higher (8.65%) than the current rate:

	<u>1% Decrease 6.65%</u>	<u>Current Discount Rate 7.65%</u>	<u>1% Increase 8.65%</u>
City's proportionate share of the net pension liability	\$ 1,793,592	\$ 1,244,576	\$ 784,707

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 **POSTEMPLOYMENT HEALTHCARE PLAN**

Plan Description – The City sponsors a single-employer post-retirement medical plan. The plan provides medical and prescription benefits to eligible retirees and their spouses. Coverage is available for employees who retire at age 60 until they are eligible for Medicare benefits. The contribution requirements of plan members and the City are established and may be amended by the Mayor and City Council. Plan members contribute 20% of the premium for medical and prescription benefits and the City contributes 80% of the premium until such time as the member qualifies for Medicare benefits. Once a member or spouse qualifies for Medicare benefits, the medical and prescription benefit through the City expires.

The Mayor and City Council adopted Resolution 2010-17 on May 20, 2010 which expanded the post-employment benefits to include health insurance for employees who retire on Accidental Disability with the State Pension System between the age of 58 ½ and age 60.

Funding Policy – The City is currently reviewing its options with respect to pre-funding these liabilities beyond its annual pay-go requirements.

Annual OPEB Cost and Net OPEB Obligation – The City’s annual other post-retirement benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation.

Annual Required Contribution	\$ 21,900
Interest on Net OPEB Obligation	3,813
Adjustment to Annual Required Contribution	<u>(2,612)</u>
Annual OPEB Cost (Expense)	\$ 23,101
Contributions Made	<u>(12,906)</u>
Increase in Net Obligation	<u>\$ 10,195</u>
Net OPEB Obligation (Beginning of year)	\$ 64,602
Net OPEB Obligation (End of year)	\$ 74,797

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	23,101	55.9%	74,797
2014	23,101	70.2%	64,602
2013	23,101	70.2%	57,722

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 **POSTEMPLOYMENT HEALTHCARE PLAN** - continued

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$188,586 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$188,586. The covered payroll (annual payroll of active employees covered by the plan) was \$1,826,535 and the ratio of the UAAL to the covered payroll was 10.32%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.50% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an initial annual healthcare cost trend rate of 8.00%. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan assets returns. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at July 1, 2012 was 27 years.

NOTE 10 **COMMUNITY DEVELOPMENT BLOCK GRANT FUND - INDIRECT COSTS**

The City does not charge indirect costs against Community Development Block Grant Funds, and accordingly, no Statement of Indirect Costs has been prepared.

NOTE 11 **OPERATING LEASES**

The City leases the Armory building to the State of Maryland for space utilized by the Water Resource Administration. The City utilizes the remainder of the building. The City renewed the lease effective July 1, 2013 through 2018 with a monthly lease payment of \$7,009. The minimum lease payment for this five year period is expected to be \$84,103 per year. The City's cost of the building was \$2,042,612 and the related accumulated depreciation through June 30, 2015 was \$732,661.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 **OPERATING LEASES** - continued

The City entered into a lease agreement with the Allegany County Human Resources Development Commission (HRDC) for the front section of the Community Center building on Water Street. The City's lease with HRDC expired September 30, 2015. On September 17, 2015 the City renewed the lease. The lease is effective October 1, 2015 through September 30, 2020 with a monthly lease payment of \$723 for the first year. The minimum lease payment for this five year period is expected to be \$8,676 per year. The lease contains an annual escalator clause of 2% for the second year and 3% for the remaining years. The City's cost of the building was \$541,722 and the related accumulated depreciation through June 30, 2015 was \$220,150.

Future minimum yearly lease payments are expected to be as follows:

2016	\$	92,737
2017		92,914
2018		93,157
2019		9,327
2020		9,603
2021		2,418
Total	\$	<u>300,156</u>

On July 23, 2013, the City entered into an operating lease with Queen City Business Systems for a copy machine. The lease requires 60 monthly payments of \$277 per month and is set to expire on July 23, 2018.

On February 21, 2013, the City entered into an operating lease with Pitney Bowes for a postage machine. The lease requires 60 monthly payments of \$155 per month and is set to expire March 30, 2018.

On March 23, 2011, the City entered into an operating lease with Queen City Business Systems for a copy machine. The lease required 60 monthly payments of \$194 per month and is set to expire on March 23, 2016.

On September 18, 2015, the City entered into a new operating lease with Queen City Business Systems for a copy machine. The new lease cancels the remaining payments due under the old copier lease that was set to expire in March 2016. The lease requires 60 monthly payments of \$168 per month and is set to expire September 18, 2020.

Future minimum yearly lease payments are expected to be as follows:

2016	\$	7,282
2017		7,204
2018		6,738
2019		2,016
2020		2,016
2021		504
Total	\$	<u>25,760</u>

Rental income for the Armory building and Community Center totaled \$93,088 for the year ended June 30, 2015. Rent expense for the copy machines and postage machine totaled \$7,516 for the year ended June 30, 2015.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 **RISK OF LOSS**

The City utilizes commercial insurance for employee health, workers' compensation, and property and liability insurance. Life and disability benefits are provided through participation in the Maryland State Retirement System. The City retains the risk of loss for Maryland Unemployment Compensation. The City feels that the commercial insurance provides adequate coverage and that the potential loss from Maryland Unemployment Compensation is immaterial to the City's overall financial position.

NOTE 13 **INSURANCE RECOVERIES**

The City received \$2,933 of insurance recoveries for the year as a result of various accidents involving City property. This amount is included in miscellaneous revenues in the government-wide statements and as other income in the governmental fund financial statements.

NOTE 14 **COMMITMENTS AND SUBSEQUENT EVENTS**

As of June 30, 2015, Phase VII-B-2, Paul Street CSO Elimination Project, was under contract to complete sewer separation and related work for the Taylor Street – Paul Street corridor. The work was 79% complete as of June 30, 2015. The completed project will use \$1,267,841 in Maryland Department of the Environment Grant Funds, \$94,120 in Maryland Department of the Environment SRF funds and \$15,000 of City cash to complete the construction budget estimated at \$1,376,961.

As of June 30, 2015, Phase II of the Savage Raw Water and Energy Conservation Project was under contract to reline the reservoirs and make upgrades to electrical components. The construction was 95% complete. Funding was provided by the Maryland Department of the Environment through SRF Loan Funding in the amount of \$450,000. \$112,500 of SRF funding will be in the form of loan forgiveness and \$337,500 of SRF funding will be repaid over 19 years at a rate of .9%. City cash in the amount of \$145,928 is necessary to complete the project.

As of June 30, 2015, funding in the amount of \$50,000 was awarded to the City by the Maryland Department of Housing and Community Development for Façade Improvements for ten projects. Six of the projects totaling \$23,305 were completed as of June 30, 2015 and the remaining four projects were in various stages of construction.

The City received a grant award for \$46,502 from the Maryland Energy Administration during the year. Grant conditions allowed for up to 30% of the grant to be used for an energy audit. The energy audit was conducted during the year. The remaining 70% will be used for energy savings upgrades.

During the year ended June 20, 2015, the City was awarded \$109,125 by the Maryland Emergency Management Agency with a required City match of \$36,375 for the purpose of acquiring the Green Street Mobile Home Park, which is located in a mapped flood plain, and returning the parcel to a designated green space owned by the City. The project was 16% complete as of June 30, 2015.

The City was awarded a \$318,000 Maryland Community Development Block Grant from the Department of Housing and Community Development to be used for repairs to the Raw Water Supply Dam. The City incurred \$28,324 of expenses on this project as of June 30, 2015. None of the expenses were eligible for reimbursement.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 **COMMITMENTS AND SUBSEQUENT EVENTS** - continued

The City was under contract with a design firm to produce design drawings in support of the Braddock Road Access and Safety Improvements Project. Phase I of the project consists of design of the entire project and the construction of a deceleration lane into Braddock Street. The work along the MD 736 corridor, Braddock Road, is supported by a \$500,000 Appalachian Regional Commission Local Access Road program grant approved early in City fiscal year 2011, with a balance of \$100,000 from the City and \$25,000 from a private partner, the Woda Group. Engineering is ongoing with this project.

The City was notified that the Appalachian Regional Commission committed funding in the amount of \$1,275,000 for Phase II of the Braddock Road Access and Safety Improvements Project which would complete construction of the project.

The City was notified by the Maryland Department of Housing and Community Development that \$300,000 was being awarded to the City from the Strategic Demolition and Smart Growth Impact Fund. The City used the funds to purchase St. Michael's Parish Hall to raze the building and create a city owned parking lot. The purchase was not completed until after June 30, 2015.

The City was notified by the Maryland Department of Housing and Community Development that \$25,000 was being awarded to the City for Façade Improvements, \$50,000 was being awarded for the Frostburg Museum Reuse project and \$75,000 was being awarded for Upper Story Redevelopment. None of these funds were used as of June 30, 2015.

The City was notified by the Maryland Energy Administration that \$25,000 was being awarded to the City from the Maryland Smart Energy Communities Grant Program. The program is to encourage local Maryland governments to voluntarily adopt formal policies to encourage energy efficiency, renewable energy development, and/or reduce reliance on petroleum as a fuel for transportation, and to implement projects to achieve the objectives of such policies. The City did not incur any eligible expenses under this program for the year ended June 30, 2015.

The City was notified by the Maryland Department of Transportation that \$14,825 was being awarded to the City from the Maryland Bikeways Program. The funding will allow for the application of bike lanes and/or share the road signage and symbols on Bowery Street, Center Street and Depot Street. The City did not incur any expenses for this project as of June 30, 2015.

Amounts received or receivable from grantor agencies are subject to audit and adjustments by grantor agencies, principally the State of Maryland. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 COMMITMENTS AND SUBSEQUENT EVENTS - continued

The City contracts with Maryland Environmental Service for the operation of the Frostburg Water Filtration Plant. The contract was scheduled to expire on June 30, 2016. On November 16, 2015, the City signed a five-year extension. The remaining years on the contracts have estimated budget totals as follows:

Fiscal Year	
2016	\$ 466,713
2017	463,539
2018	473,735
2019	481,928
2020	495,201
2021	509,599

The City evaluated subsequent events through January 28, 2016 for possible inclusion in the financial statements and for potential required disclosures.

NOTE 15 NEW PRONOUNCEMENTS

The City has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, issued to improve financial reporting for pensions. These changes are reflected in the City’s financial statements. GASB Statements 68 and 71 required restatement of beginning net position as follows:

	Proprietary Funds		
	Water	Sewer	Garbage
Net Position, June 30, 2014	\$ 1,239,667	\$ 12,147,710	\$ 259,903
Net Pension Liability	(157,080)	(128,474)	(86,781)
Deferred Outflows of Resources	19,264	16,643	10,417
Net Position, as restated	<u>\$ 1,101,851</u>	<u>\$ 12,035,879</u>	<u>\$ 183,539</u>

	Primary Government	
	Governmental Activities	Business-type Activities
Net Position, June 30, 2014	\$ 12,824,329	\$ 20,697,100
Net Pension Liability	(999,817)	(372,335)
Deferred Outflows of Resources	117,104	46,324
Net Position, as restated	<u>\$ 11,941,616</u>	<u>\$ 20,371,089</u>

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 **NEW PRONOUNCEMENTS** - continued

The Governmental Accounting Standards Board has issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued to establish financial reporting standards relating to government combinations and disposals of government operations. At this time, there is no impact on the City's financial statements.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted			
	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Net property tax revenue	\$ 2,166,258	\$ 2,273,500	\$ 2,307,089	\$ 33,589
Income taxes	400,000	360,000	470,163	110,163
Hotel motel tax	150,000	150,000	160,702	10,702
Highway use tax	151,000	190,000	67,026	(122,974)
Other taxes	143,900	111,400	111,520	120
Police protection grant	164,450	150,000	160,267	10,267
Public safety revenue	73,000	67,500	78,217	10,717
Licenses and permits	28,000	45,700	49,882	4,182
COPS grants	-	44,000	52,595	8,595
Rental program revenue	65,000	60,250	74,489	14,239
Recreational activities	72,500	71,000	87,215	16,215
Grant income - other	227,302	336,000	479,428	143,428
Transfers from other funds	294,889	294,889	294,888	(1)
Other income	127,291	187,291	191,630	4,339
Interest	1,500	3,400	3,826	426
TOTAL GENERAL FUND REVENUE	4,065,090	4,344,930	4,588,937	244,007
EXPENDITURES				
Administration	836,284	870,703	912,716	(42,013)
Public safety	1,794,011	1,805,375	1,804,430	945
Street department	973,350	1,194,907	1,135,313	59,594
Recreation department	461,445	473,945	459,121	14,824
TOTAL EXPENDITURES	4,065,090	4,344,930	4,311,580	33,350
EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS	\$ -	\$ -	\$ 277,357	\$ 277,357

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual budgetary basis "general fund revenue" from the budgetary comparison schedule	\$ 4,588,937
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(294,888)
Proceeds from the sale of capital assets is income from budgetary resources but is not revenue for financial reporting purposes.	(11,425)
Rental income is income from budgetary resources but are not revenues for financial reporting purposes.	(93,088)
Capital contributions are income from budgetary resources but are not revenues for financial reporting purposes in the fund statements.	(63,046)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	\$ 4,126,490

The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG, MARYLAND

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

NOTE 1 BUDGET TO ACTUAL VARIANCES

Administration expenses exceeded the final budgeted figure as a result of unanticipated capital outlays.

CITY OF FROSTBURG, MARYLAND
REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFIT PLAN CONTRIBUTION

Valuation Date	Value of Assets	Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability (UAAL)	Covered Payroll	of Covered Payroll
7/1/2009	\$0	\$138,183	0.0%	\$188,586	\$1,644,898	8.40%
7/1/2012	\$0	\$188,586	0.0%	\$188,586	\$1,826,535	10.32%

The City has elected to apply the GASB Statement prospectively and as a result the liability at transition was \$0.

CITY OF FROSTBURG, MARYLAND

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

SCHEDULE OF CITY OF FROSTBURG, MARYLAND'S PROPORTIONATE SHARE OF NET
PENSION LIABILITY - MARYLAND STATE RETIREMENT AND PENSION SYSTEM

	<u>2015</u>
City's proportion of the net pension liability	0.0070%
City's proportionate share of the net pension liability	\$ 1,244,576
City's covered payroll - Employee Retirement System	\$ 1,967,223
City's proportionate share of the net pension liability as a percentage of its covered payroll	63.27%
Plan fiduciary net position as a percentage of the total pension liability	71.87%

This schedule is presented to illustrate the requirement to show information for 10 years. Until a full 10 year trend is completed, the City will present the information for the years that are available.

The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG, MARYLAND

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

SCHEDULE OF CITY OF FROSTBURG, MARYLAND'S CONTRIBUTIONS TO
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

	<u>2015</u>
Contractually required contribution - Employee Retirement System	\$ 169,575
Contributions in relation to the contractually required contribution	<u>\$ 169,575</u>
Contribution deficiency (excess)	\$ -
City's covered employee payroll - Employee Retirement System	\$ 1,967,223
Contributions as a percentage of covered-employee payroll - Employee Retirement System	8.62%

This schedule is presented to illustrate the requirement to show information for 10 years. Until a full 10 year trend is completed, the City will present the information for the years that are available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Changes in Benefit Terms - There were no benefit changes during the year.

Changes in Assumptions - Adjustments to the roll-forward liabilities were made to reflect the following assumptions:

Changes in the 2014 valuation

- Investment return assumption changed from 7.75% to 7.65%

- Inflation assumption changed from 2.95% to 2.90%

The accompanying notes are an integral part of these financial statements.